

GUARANTEED EDUCATION TUITION COMMITTEE

SPECIAL MEETING

**Monday, June 17, 2002
2:00 P.M. – 3:00 P.M.
State Investment Board
2424 Heritage Ct SW
Olympia, Washington**

AGENDA

1. Call to Order
2. Update on GET enrollment year INFORMATION
3. Update on development of a College Savings Plan DISCUSSION
POSSIBLE ACTION
4. Possible Executive Session
 May be held for any of the purposes set forth in RCW 42.30.110
5. Action Items, if any, made necessary by Executive Session
6. Adjournment

**Next Regular Meeting:
July 15, 2002, 2:00 – 5:00 p.m.
State Investment Board, 2424 Heritage Ct SW, Olympia, Washington**

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Tuesday, March 12, 2002
State Investment Board, Board Room
2424 Heritage Court SW
Olympia, WA

MINUTES

CALL TO ORDER

Marc Gaspard, HECB Executive Director and GET Committee Chair, called the meeting to order at 2:00 p.m. Committee members in attendance in addition to the Chair included Michael J. Murphy, State Treasurer, Theo Yu, Budget Assistant to the Governor, Office of Financial Management (in attendance for Marty Brown, Director of OFM), Mooi Lien Wong, Citizen Member and Beth Stecher Berendt, Citizen Member.

HECB staff in attendance:

Betty Lochner, GET Director
Larry Lee, GET Operations Manager
Debra Blodgett, Administrative Assistant

Guests in attendance:

Howard Fischer, Office of the Attorney General
Les Brody, State Investment Board

WELCOME

Marc opened the meeting with introductions from committee members, staff and guests in attendance. Betty Lochner announced that the meeting was being covered by TVW television. Marc thanked the TVW crew for their coverage of the meeting.

Marc indicated that the purpose of this meeting was to approve two policy revisions for adoption and for approval of the Savings Plan Request for Proposal (RFP) document. Betty indicated that there were no changes to the agenda as presented.

APPROVAL OF MINUTES

It was moved by Mike Murphy with a second from Theo Yu to approve the January 23, 2002 minutes as presented. The motion carried unanimously.

PROPOSED POLICY REVISIONS

Betty introduced the first proposed policy revision for consideration, which increases the annual unit usage from 100 to 125 units. The current policy allows for a maximum of 500 units to be purchased per beneficiary, with annual usage limited to 100 units per year, unless eligible units are available from a previous year. This policy does not allow students to use more than 100 units per year, even if they anticipate graduating in four years. In cases where the student has the maximum 500 units available for usage, and graduates in four years, the remaining unused 100

units would be required to be refunded, with penalty. There have been a growing number of requests to use more than 100 units per year, so that all 500 units could be used over a four-year period, if so desired. The recommended proposal is to allow up to 125 eligible units to be used by an eligible beneficiary each year. The maximum purchase of 500 units total per beneficiary would remain. The revised policy would be effective September 1, 2002.

Betty proceeded with the next proposed policy revision for establishing scholarship accounts. Current policy makes it necessary for organizations to open individual accounts for each beneficiary, requiring a \$50 enrollment fee for each account. In many cases, the amount in the accounts is not sufficient to cover the cost of annual administration and the cost to the organization can be prohibitive. This proposal allows organizations to open a master account with a \$100 enrollment fee, and would limit the purchase of 5,000 units for each master account. Once a beneficiary is named, an individual account would be opened in the student's name. A \$25 benefit use fee would be required for each individual account established at the time the beneficiary is named. The purchaser would remain as the scholarship organization. Any unused funds would be transferred back to the master enrollment with the organization. This policy change would make the GET program an easy vehicle for scholarship programs and would streamline the administration of these accounts for both the organizations and GET.

Mike Murphy asked about the 501(c)(3) requirements associated with these types of accounts. Betty indicated that 501(c)(3) or government agencies would be allowed to open these types of contracts as well as any other businesses listed in the statute. Under the proposed change they all would be treated the same. Marc pointed out that our assistant attorney general has reviewed the proposed changes.

PUBLIC COMMENT

Marc opened up discussion for public comment on the two proposed policy revisions that were presented. With no comments raised, Marc asked if there was a motion to approve both policy revisions.

It was moved by Mike Murphy to approve adoption of both policy revisions as presented. The motion was seconded by Theo Yu. The motion carried unanimously.

COLLEGE SAVINGS PLAN UPDATE

Marc asked Betty to update the committee on the college savings plan Request for Proposals (RFP). All committee members received a final draft copy of the RFP. A work group that included staff from the GET program, Treasurer's office, and WSIB have been working on this document, which incorporates the work of the savings plan advisory group, public comment taken, and comments from committee members. The final draft was presented with some minor technical changes. Betty reviewed the document, and discussed the optional information session for prospective bidders, which is scheduled for March 26, 2002 in the SIB Board Room. This session will allow prospective bidders to hear about the background and intent of the project, as well as answer general questions about the RFP. It is the intent that upon approval by the GET committee, the RFP would be posted on the HECB and SIB web site by Friday, March 15, 2002. There is also a list of contacts who are interested in receiving the RFP, who will be sent the

information via e-mail. The proposals will be due May 10, 2002. It is anticipated that recommendations for the selection of vendors for the Savings Plan would be presented at the July GET Committee Meeting. Marc asked if there were any questions. Mike asked if committee members could attend the information session. Howard Fischer answered that they could, but that if three or more attend, a notice of special meeting would need to be announced. Betty indicated she would check back with committee members before the session to see how many may decide to attend.

It was moved by Mike Murphy to approve the RFP as presented. The motion was seconded by Beth Berendt. The motion carried unanimously.

Marc expressed his appreciation for the hard work on developing the RFP by GET staff, Treasurer's office staff, WSIB staff and the Attorney General's office.

DIRECTOR'S REPORT/LEGISLATIVE UPDATE

Betty gave the update on GET statistics through February 28, 2002. There are currently a total of 14,765 active accounts; with an \$86 million balance of payments received. The total value of the accounts including future payments expected is \$117 million. There have been 1,489 enrollments received for the current enrollment year.

The television ads started on March 11 and will run for two weeks. We are receiving an increased volume of calls and expect many people will wait to turn in enrollment forms until the last few weeks of May. GET has hired some temporary staff to keep up on the workload. Marc commented that GET based their budget on 3,000 new enrollment forms and it looks like we are on track. Theo asked if there have been questions from prospective customers about the savings plan. Betty indicated there had been some but not a lot so far.

Betty gave the update on House Bill 2492 to increase the amount of start up funds available for the savings plan; it has passed out of committee in the House and in the Senate Higher Education committee and is in the House Rules committee. The House has proposed a 16% tuition increase; the Senate has proposed a 14% increase in tuition authority.

NEXT MEETING

The next meeting of the GET Committee is scheduled for July 16, from 2:30 – 5:00 p.m. at the SIB Board Room. *(Note: the GET Committee meeting has subsequently been rescheduled to July 15, from 2:00-5:00 p.m. at the SIB Board Room).*

ADJOURNMENT

There being no other business, the meeting was adjourned at 2:30 p.m.

Washington College Savings Plan Update

June 17, 2002

Background

Proposals from bidders for three components of a savings plan including investment management, records administration, and marketing, were due on May 10, 2002. The Washington State Investment Board (WSIB) reviewed the twelve proposals that were submitted for investment management. Two proposals for records administration and two proposals for marketing services were reviewed by a work group of staff from the HECB and the Office of the State Treasurer.

Start-up costs for the first year (marketing and records administration) as indicated in the proposals were approximately \$2 million. The selected investment firm would recover these costs through participant fees. Review of all of the proposals found that a minimum number of viable proposals were received. The top-ranking proposal for investment management indicated that the program cost to participants would range from 201 basis points to 233 basis points (100 basis points equals 1%) of assets under management. Additionally, there would be an annual records management fee of \$48, in addition to the enrollment fee. This would make Washington's program one of the most expensive programs in the nation. A memo received from the WSIB expressed serious concerns about the level of fees and investing any more WSIB staff time in the selection process.

Staff Recommendation for moving forward with a Washington College Savings Plan

Staff recommends that the committee move forward to develop a request for proposals (RFP) for a bundled approach that would allow for one firm to manage all three components. Advantages to this approach include allowing for a longer contracting time period, which would potentially lower participant fees. This option would require hiring a consultant to develop an RFP, review and analyze proposals, and make recommendations to the GET Committee. The selected firm would be required to reimburse the costs for the procurement. The GET Program is already under contract with Milliman USA for actuary and investment consulting so further contracting for the RFP process is not necessary. The proposed timeline would have a proposal ready for approval by the Committee in late July. The process should conclude with a recommendation to the Committee by October.

In making the recommendation several other options were reviewed including, returning to the legislature to request additional funding for start-up and a longer repayment period for the loan from the GET Program, exploring a partnership with another state, and conducting a feasibility study to determine if further program development should continue at this time.

Text from Memo for Committee packet

Betty, based SIB's review of RFP responses, we would have two finalists for the Age-Based option, two for the Balanced options, two for the Passive Equity option, the SIB Bond Fund for the Intermediate Bond option, and two finalists for the Stable Value option. We used the following estimates of asset allocation of Age-Based option 45%; Balanced option 20%; Passive Equity option 20%; SIB Bond Fund 10%; Stable Value option 5%. Additionally, we combined these allocations with the lowest cost combination. Based on these assumptions, the average cost of the Washington College Savings Program would be around 223 basis points (2.23 percent). The actual average cost would depend on the allocation of moneys among the options. The range would be from 201 basis points, to 233 basis points. Additionally, there would be an annual records management fee of \$48, and the state of Washington enrollment fee of \$50.

Our quick analysis of other college savings programs, which did not include a review of brokerage relationships, indicates that Washington would have the highest low fee investment option, the highest top fee investment option and the highest annual maintenance fee. The lowest fee we found was Utah with a range from 0 basis points to 25 basis points; with an annual maintenance fee between \$0 and \$25.

As a side note, when I briefed the members of the Public Markets Committee on Tuesday about where we were with the program and the range of fees, they expressed serious concerns about the level of fees. At these fee levels, some of them questioned the investment of the time it would take to conduct interviews of the prospective managers. Speaking for myself as a Washington citizen and not as a representative of the SIB, I personally believe to offer such a program with fees this high would be a disservice to Washington citizens. I believe that any program Washington offers it's citizens should be competitive with what our citizens could receive from other states. With that said, we recognize that the GET policy board, in the end, must make the decision of how best to offer a program to Washington, and the SIB is committed to assist if we can.

As I mentioned when you informed me of the date you selected for the GET meeting, I will not be available in person for the meeting. Nancy Calkins, my Senior Investment Officer for Public Equity and the primary person that has assisted me on this project, will be there to answer questions.

If you have any questions, please let me know.

Gary Bruebaker